

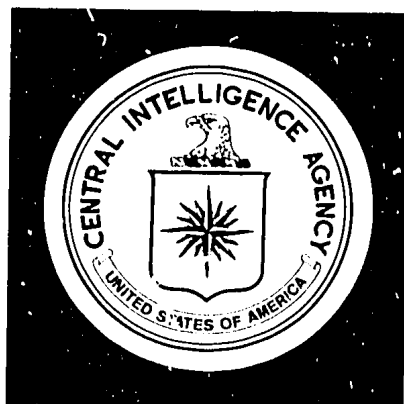
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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

The Soviet Economy in 1972 and 1973

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
February 1973

INTELLIGENCE MEMORANDUM

THE SOVIET ECONOMY IN 1972 AND 1973

INTRODUCTION

1. In 1972 the USSR found itself in its most serious economic difficulties since 1963. The growth rate dropped precipitously, as both agriculture and industry failed to meet planners' expectations by wide margins. Soviet leaders responded with a frantic effort to patch-up the economy. Unprecedented quantities of foreign grain were purchased to cover domestic losses, and plans for 1973 were revised drastically.

2. This memorandum (1) examines the USSR's economic performance in 1972, (2) discusses Soviet economic plans for 1973, and (3) assesses the short-run prospects for the economy.

SUMMARY

3. A serious shortfall in agricultural production and a slowdown in industrial growth are putting the Soviet leadership's programs to raise consumer welfare under increasing strain. These programs stood up in 1972, as evidenced by the Soviet decision to import 29 million metric tons of grain and a large amount of sugar. Prospects for 1973 depend partly on the weather during the remainder of the growing season, but the chances are high that large food imports will again be necessary. Consequently a record hard currency deficit is to be expected, and pressures are bound to grow for cuts in unessential imports, especially of consumer goods, as the Soviet short-term hard currency debt mounts and as gold sales approach the level of gold production. Although the 1973 economic plan does not reflect a shift in priorities away from consumption, the Soviet leadership may face some critical decisions later in the year. If the harvest is good

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or average, policy will probably continue more or less unchanged. If it is bad, there will no doubt be a reckoning, perhaps at the top of the Soviet government.

4. Soviet gross national product (GNP) grew by only 1.5% in 1972, the lowest rate of increase since 1963. A setback in agriculture was primarily responsible, but chronic problems in industry also contributed to the drastic slowdown in economic growth.

5. Farm output in 1972 dropped about 7% from the 1971 level as severe winterkill and the "worst drought in 100 years" in some parts of the European USSR reduced the grain harvest by 14 million tons and lowered production of most major crops. Nevertheless, the grain harvest was only 1.5% less than the average for the preceding five years. This year's agricultural crisis was caused above all by a rapidly rising demand for grain to support Brezhnev's livestock program. To feed its population and maintain its livestock herds, the USSR purchased more than 29 million tons of foreign grain worth about US \$2 billion -- more than twice the amount imported after the harvest failures of 1963 and 1965.

6. Industrial output grew by no more than 4.5% in 1972, the smallest increase since World War II. To some degree, industry was dragged down by both this year's agricultural decline and the mediocre harvest of some crops in 1971. As a result, some parts of the processed food industry were on short rations while production schedules generally were disrupted by the transfer of men and transport to harvest activities. More important, the productivity gains and the new plant and equipment necessary to fulfill the plan did not materialize.

7. Investment difficulties seemed to cause the Soviet leadership almost as much anguish as agricultural difficulties. The inventory of incompleting projects soared as new capacity was not brought into production on schedule. One of the reasons for the problem in investment was the watering down of priorities in the allocation of investment resources as a result of greater decentralization of authority since the 1965 reforms. However, underfulfillment of key equipment goals was a contributing factor.

8. The decision to import enormous amounts of grain and sugar in 1972 indicates that the present Soviet leadership assigns high priority to raising consumption. Soviet consumers did not go hungry, and consumption of nondurable and durable consumer goods was larger than in 1971. Even so, the consumer felt the impact of the economic slowdown. Despite frantic efforts by the authorities to supplement food supplies, there were shortages and sharply increased prices in collective farm markets. There is no indication, however, that military programs were significantly affected by the economy's problems.

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9. These problems forced major revisions in the 1973 economic plan, and, even with the cutbacks, the 1973 plan will prove difficult to fulfill. Although agriculture is likely to rebound, if only because the chances are against the weather being as bad as last year, large grain imports are almost certain to continue. Industry will still have to improve its sluggish performance and overcome the 1971-72 shortfalls in the completion of new capacity. The consumer in 1973 will continue to feel the pinch caused by agricultural problems of 1972. The plan revisions, however, contain no clear evidence of a change in priorities. Leadership statements hailing 1973 as the "decisive year" as well as the 1973 investment targets point to a continuation of the 24th Party Congress' emphasis on improving the population's living standards.

10. In 1973 the USSR will have to reexamine its foreign trade and payments. Grain purchases have strained the already tight Soviet payments position, and the hard currency deficit will probably be \$1.8 billion or more in 1973 - considerably larger than in any previous year. To cover the deficit, the USSR will use nearly \$1 billion in Western government-guaranteed credits, may sell about \$400 million in gold, and will face a short-term deficit as well as have to cut unnecessary imports.

11. The economy's performance in 1971-72 has probably foreclosed the possibility of meeting the primary goals of the 1971-75 plan. The growth of GNP will probably average about 4.5% a year during 1971-75, compared with an average of 5.6% in 1966-70. This would be only average performance for an industrial country and is unimpressive considering the USSR's comparative economic backwardness and the intensity of its investment effort. Agricultural production, which has declined more than 7% from its peak in 1970, almost certainly will not achieve the none-too-ambitious targets set out in the five-year plan directives. If the USSR decides to stay with its livestock program, it will have to import substantial quantities of foreign grain for the foreseeable future. The overly ambitious industrial goals are also in doubt. The output of some important industrial commodities is already behind schedule, jeopardizing the fulfillment of the plans during 1973-75, and the shortfalls already incurred in commissioning new capacity will inevitably hold back industry in the next few years. Still the growth in industrial production will be respectable by most standards - perhaps as much as 6% per year for the balance of the 1971-75 plan period. To achieve the plan goals would require an unlikely boost in the productivity of labor and capital and greater success in economizing on the use of industrial raw materials.

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DISCUSSION

Economic Trends in 1972

12. In 1972 the Soviet economy turned in its worst showing since World War II. According to preliminary estimates, GNP increased by only 1.5%, compared with average annual increases of about 5.5% in 1966-70 and 3.5% in 1971. Although the downturn in farm production was responsible for much of the 1972 slump in overall production, the USSR's policymakers found that problems have also developed in many non-agricultural sectors, particularly in industry (see Table 1).

Table 1

**USSR: Percentage Growth of GNP
by Sector of Origin**

	<i>Average Annual 1966-70</i>	<i>1971</i>	<i>1972</i>
GNP	5.6	3.5	1.5
Farm sector ^a	4.2	-0.5	-6.8
Non-farm sectors	6.2	5.2	4.6
Industry	6.8	5.0	4.5
Construction	7.0	8.7	6.0
Transportation and communications	6.2	6.5	5.1
Domestic trade	8.2	6.8	6.9
Services	4.4	3.7	3.6

a. This measure of agricultural output excludes intra-agricultural use of farm products but does not make an adjustment for purchases by agriculture from other sectors. Value added in agriculture grew by an average of 3.9% a year in 1966-70 and declined by 2.1% in 1971 and 9.9% in 1972.

13. As the year ran its course, the Soviet leadership found its attention drawn with growing force to a serious agricultural situation. After losing one-third of the winter grain crop, the Soviets took emergency measures to recoup the losses through a larger spring planting. Then a drought in the European USSR forced them into the market twice for massive purchases of grain. By year's end, the USSR was still buying small quantities of grain, had reentered the world market for sugar, and still had not protected itself against domestic shortages of other agricultural products.

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Nevertheless, the leadership was able to breathe far easier in December than in September because a record harvest of grain and other crops in Siberia and Kazakhstan staved off what threatened to be a complete disaster. If the harvest in these regions had remained at the average of the preceding five years, the USSR's grain crop would have been about 118 million tons instead of 134 million tons.

14. The drama on the agricultural scene together with the frantic efforts of Party and government officials to cope with the farm problem have, however, obscured some of the USSR's other and no less serious economic difficulties. Thus the dislocations stemming from shortages of agricultural raw materials, the emergency transfer of men and machinery to the farms, and abnormal demands on the transportation system have been blamed for industry's decline. On closer inspection, this turned out to be only a partial explanation -- as the regime came to recognize.

15. By 1972 the investment program was far behind in meeting its commitments to furnish new productive facilities to the economy, with a pronounced effect on industrial production as well as other sectors such as transportation. For some time, moreover, the leadership has accepted the proposition that economic growth could no longer be based on "extensive" development -- the simple addition of more men and fixed capital. Therefore, increasing reliance has been placed on productivity gains. In 1971 and again in 1972, however, planned productivity growth did not materialize -- even in sectors untroubled by lack of raw materials or the demands of the agricultural crisis. The continuing problems in investment and productivity will be harder to overcome in the long run than the aftereffects of the 1972 harvest.

16. So far the Soviet population has been hurt little by the economic slowdown. Per capita consumption rose by about 3% in 1972; continued growth in the availability of soft and durable goods and personal services partly offset a pause in the upward trend in food consumption. Food imports sustained consumption, but there were probably reductions in many inventories. Although scattered shortages of some foods appeared during the fall, the main burden of the poor agricultural year was deferred until 1973.

Agriculture

17. In 1972 the European USSR suffered its "worst drought in 100 years," according to Soviet officials. As a result, net agricultural production in 1972 dropped about 6.8% from the 1971 level and was 7.2% below

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the all-time high established in 1970.¹ Crop production – particularly grain, potatoes, sunflowers, vegetables, and fruits – fell by 9.3% while the production of livestock products declined by 3.8%. Although the percentage decline in crop production ranks with the worst of the past 20 years, total crop production and grain output in 1972 were still greater than production in all but one year of the 1960s (see Figure 1).

18. The shortfalls in the grain and potato crops were the most damaging because breadgrains – wheat and rye – and potatoes are the principal part of the Soviet diet, and feedgrains as well as a large share of the breadgrains and potatoes are essential to the production of meat, milk, and eggs. The 1972 harvest of usable grain is estimated to be about 134 million tons, far less than the 148 million and 150 million tons gathered in 1971 and 1970, respectively. The 1972 potato crop, according to preliminary estimates, was down about 16% from the below-average 1971 level.

19. In addition, the harvests of all other important crops except cotton declined to levels below the 1966-70 average (see Table 2). Sugar beet production, although slightly higher than in 1971, was 7% less than the 1966-70 average.² The 1972 crop of sunflower seeds, the main source

Table 2**USSR: Production of Selected Crops**

	<i>Million Metric Tons</i>		
	<i>Annual Average 1966-70</i>	<i>1971</i>	<i>1972</i>
Grain ^a	136.6	148.0	134.0
Potatoes	94.8	92.3	77.8
Vegetables	19.5	20.8	19.1
Sugar beets	81.1	72.1	75.7
Sunflower seeds ^a	6.4	5.7	5.0
Cotton	6.1	7.1	7.3

a. Estimate of net usable production.

1. Measured by an independent index of USSR agricultural output using preliminary estimates of 1972 commodity output. The Soviet measure of gross agricultural production declined by about 5% in 1972.

2. In 1971 a decrease in domestic beet production coupled with smaller imports of Cuban cane sugar caused the USSR to buy an estimated \$125 million-\$150 million worth of sugar on the world market.

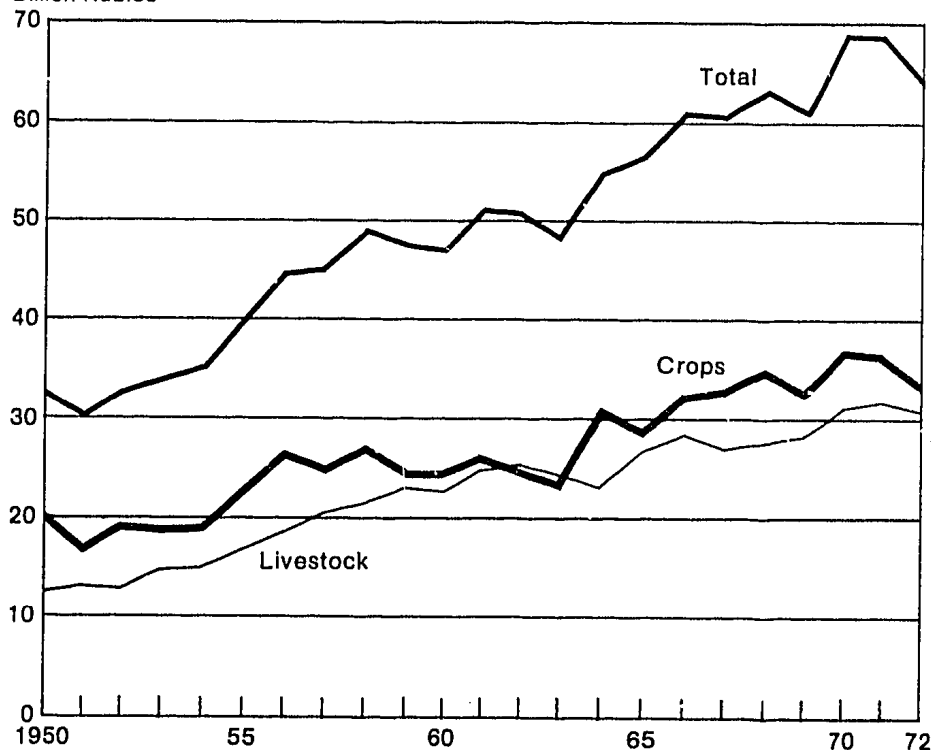
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USSR: Farm Production

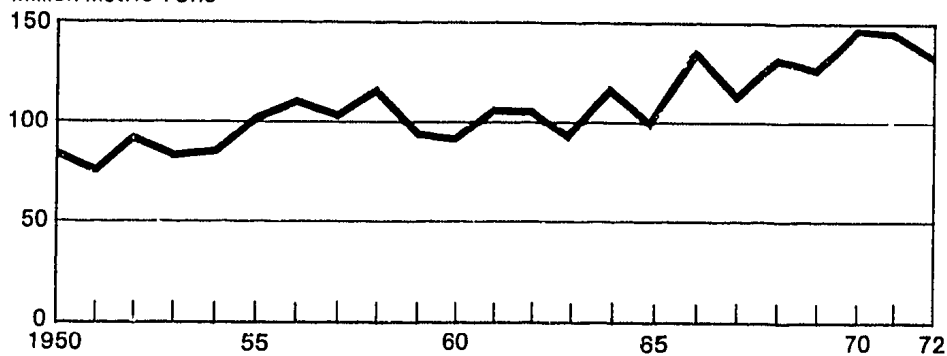
Value of Farm Output

Billion Rubles



Production of Usable Grain

Million Metric Tons



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of vegetable oil in the Soviet Union, was 12% below the subnormal 1971 crop and 22% less than average production in 1966-70. The downturn in production of fruits and vegetables was the most visible sign of a poor agricultural year. Garden vegetables and fruits felt the effects of the drought throughout the summer, while last winter's extreme cold damaged important orchard areas.

20. Total fodder production was also down in 1972.³ More importantly, to obtain the lower volume of fodder, the farms were forced to harvest more low-quality roughages. Moreover, fodder supplies were not distributed as needed among the regions. Because grain and roughages are substitutes as livestock feed, any shortages of fodder will only complicate the tight grain situation.

21. The production of livestock products, which showed a vigorous growth in 1971, was curbed in 1972 (see Table 3). The attempt to increase livestock inventories was frustrated by a shortage of feedgrains, burned-out pastures, and the waste and confusion involved in shipping cattle out of, and fodder and feed into, drought-stricken areas. Before the farm problems emerged in mid-1972, the USSR had been driving hard toward its livestock

Table 3

USSR: Production of Selected Livestock Products

	<i>Annual Average 1966-70</i>	<i>1970</i>	<i>1971</i>	<i>1972</i>
	<i>Thousand Metric Tons</i>			
Meat (slaughter weight)	11,600	12,300	13,300	13,600
Milk	80,500	83,000	83,200	83,200
Wool	398	419	424	419
	<i>Billion Units</i>			
Eggs	35.8	40.7	45.1	48.2

3. The term fodder is used here to mean roughages such as hay, silage, pasture, and straw, which usually provide about three-fifths of the total feed supply. Concentrated feeds (feed grains, milling byproducts, and oil seed meals) supply another third, and the balance comes from roots, tubers, milk, and miscellaneous feeds.

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goals – one of the pillars of the leadership's consumer program. By July, cattle and hog inventories in state and collective farms were far higher than a year earlier, although sheep and goat herds had been reduced by the exceptionally cold winter of 1971-72.

22. To support the rising livestock inventories, the USSR had been forced to import increasing quantities of grain because domestic supplies were not able to meet the demand for high-energy feeds. While the amount of grain used for food has changed very little since 1960, the use of grain as livestock feed grew by roughly 40% between 1968 and 1971. Even after two bumper harvests, in 1970 and 1971, the USSR, in support of its livestock program, purchased nearly 8 million tons of grain worth nearly one-half billion dollars for delivery in fiscal year (FY) 1972. Last year, moreover, the Soviets apparently had decided to continue large purchases from the West on a long-term basis even before bad weather damaged the winter grain crop. By February they had bought 3.5 million tons of wheat from Canada for delivery in FY 1973. In May they agreed to buy at least \$750 million worth of US grain over a three-year period – at least \$200 million worth in the first year.

23. When the dimensions of the poor harvest became clear in the summer of 1972, the leadership bit the bullet and bought 25.5 million tons of grain on the international market. Total grain contracts with all countries for delivery in FY 1973 now total 29.1 million tons, worth \$2 billion or almost three and one-half times as large as imports in FY 1972.⁴ Having shored up its grain position, the USSR was able to devote all available feed stocks to preventing the kind of massive distress slaughtering that occurred after the 1963 harvest debacle, when grain imports were very much smaller. By the end of 1972 the policy appeared to be succeeding. Cattle inventories were higher than a year earlier, while the decline in hog, sheep, and goat numbers had been held to reasonable proportions, as follows:

	<i>Million Head on 1 January</i>			
	1970	1971	1972	1973
Cattle	95.2	99.2	102.4	104.0
Of which:				
Cows	40.5	41.0	41.2	41.7
Hogs	56.1	67.5	71.4	66.5
Sheep and goats	135.8	143.4	145.3	144.5

4. The major Soviet purchases included 19 million tons from the United States, 5 million tons from Canada, and 1 million tons each from Australia and West Germany.

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24. On balance, the leadership has so far managed the crisis in agriculture quite well. The regime's campaign to deliver the harvest in Kazakhstan and Siberia brought about an enormous reallocation of men and machinery and was rewarded with record yields. The leadership also delivered on its promised allocation of industrial inputs to agriculture. In contrast to other years, the supply to agriculture of machinery and fertilizer in 1972 generally exceeded plans and made good some minor shortfalls recorded in 1971.

Industry

25. Industrial output grew no more than 4.5% in 1972 (see Table 4), the smallest annual increase since World War II.⁵ The industrial slump which

Table 4

**USSR: Average Annual Rates of Growth
of Industrial Production**

	<i>Percent</i>				
	<i>Actual</i>		<i>Plan</i>	<i>Actual</i>	
	<i>1961-65</i>	<i>1966-70</i>	<i>1971-75</i>	<i>1971</i>	<i>1972^a</i>
Total industrial output	6.8	6.8	8.0	5.0	4.5
Industrial materials	7.3	6.1	7.0	5.6	5.1
Electric power	11.5	7.9	7.9	8.1	7.4
Coal products	2.7	1.9	3.0	2.6	2.2
Petroleum products and natural gas	10.9	7.9	7.9	7.0	5.7
Ferrous metals	7.9	5.5	5.1	4.1	3.9
Nonferrous metals	8.4	8.6	8.4	5.3	7.0
Forest products	3.0	3.5	5.8	3.8	3.8
Paper and paperboard	7.7	7.2	5.8	5.5	4.6
Construction materials	8.0	6.4	7.1	6.2	5.3
Chemicals	11.7	9.3	11.5	7.9	6.6
Machinery	7.7	8.1	11.4	4.9	5.5
Soft goods	2.4	8.0	6.6	4.5	1.3
Processed foods	7.0	4.7	6.2	2.9	2.2

a. Preliminary estimates.

5. Soviet gross industrial output, which has a different valuation than Western measures of output and is biased by changes in double-counting and problems connected with new product pricing, increased by 7.8% in 1971 and 6.5% in 1972.

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began in 1971 and continued in 1972 was the result of factors which have been at work for some time as well as the direct and indirect effects of the agricultural situation. As in the past, overly ambitious productivity goals were not met, economies in the use of raw materials fell short of plans, and new plant and equipment was not brought on stream as scheduled.

26. The end-of-year reports indicate clearly that, as in 1971, Soviet industry did not make the productivity gains or install the new fixed capital that were counted on in the annual plan. The combined productivity of labor and capital in industry rose by only 0.5% in 1971 and 0.4% in 1972 - in just four years in the past 22 was there a worse performance. Some of the failure in productivity might have been offset by sufficiently large additions to industrial fixed capital, but the growth in fixed capital lagged in both 1971 and 1972. Thus industry was off to a bad start in two areas which Gosplan had made key conditions of the success of the 1971-75 plan.

27. Another disturbing development in 1971-72 was the shortfall in meeting targets for economizing on the use of industrial raw materials. The 1971-75 plan for industry is a taut plan in the tradition of all Soviet plans. To achieve consistency between planned output and planned inputs, Gosplan included plan goals for using less metal, fuel, electric power, lumber, and other basic materials per unit of output in industry and other sectors of the economy. Baybakov, Chief of Gosplan, noted "grave shortcomings" in the use of metals, however, and other plans for material savings have not been achieved.

28. The agricultural situation affected industry by reducing the flow of raw materials and by diverting resources away from industry. The direct effects of the 1972 harvest on raw material supply will be felt mainly in 1973, but industry in 1972 was already on short rations with respect to sugar beets, sunflower seeds, milk, and wool as a consequence of the 1971 harvest. In addition, the above-normal manpower and transportation requirements of the 1972 planting and harvest periods probably held down industrial activity. More industrial workers than usual were detailed to support the farm work, and industrial supply must have been interrupted by the roundup of trucks for agricultural work and especially by the heavy load that the grain harvest in the East and the grain imports put on port facilities and the rail system.

29. Although a number of sectors shared in the industrial decline, the slowdown in the production of machinery and consumer goods had the greatest effect on industrial growth (see Figure 2). Within the machinery sector, production of producer durables - although generally on or close to target - has been flawed by shortfalls in the manufacture of equipment for the chemical, petroleum, light (soft goods), and food industries. In 1972

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Figure 2

Production of Industrial Commodities in 1972: Plan Versus Actual

Sector	Ahead of Plan (By More Than 2.5%)	Even with Plan (Within 2.5%)	Behind Plan (By More Than 2.5%)
Fuels and power		Electric power (-0.6) Oil (-0.7) Coal (0.8)	Natural gas (-3.5)
Ferrous metals		Iron (-0.2) Steel (0) Rolled steel (-0.1) Finished rolled steel (-0.9) Iron ore (1.0)	
Forest products and paper		Cellulose (-1.9) Paper (1.0)	Commercial timber (-4.9) Cardboard (-4.5)
Construction materials		Cement (-0.4) Asbestos-cement shingles (2.0) Reinforced concrete (0) Construction brick (-2.2)	Soft roofing (-4.7) Glass (-4.4)
Chemicals		Mineral fertilizer (0.3) Pesticides (0.1) Plastics and synthetic resins (2.2) Chemical fibers (0) Tires (-0.8) Synthetic washing compounds (-2.0) Sulfuric acid (-2.1) Soda ash (-0.4)	Caustic soda (-3.6)
Machinery	Electric motors (6.1) Instruments and spare parts (6.7) Computer equipment (16.2) Bulldozers (5.0)	Metalcutting machine tools (1.0) Numerically controlled (-0.4) Forge-press equipment (-1.8) Diesel engines (-0.8) Electric engines (0.3) Automobiles (0.2) Trucks (-0.2) Passenger cars (0.4) Buses (1.8) Tractor trailers (-2.1) Tractors (0.2) Farm machinery (-1.0) Excavators (0.2) Food industry equipment (-1.3) Watches and clocks (0.2) Television sets (0.5) Motorcycles and scooters (-1.4) Furniture (-1.4)	Turbines (-11.1) Generators for turbines (-9.6) Oilfield equipment (-15.4) Chemical equipment and parts (-9.6) Freight cars (-4.3) Coal cleaning combines (-10.0) Grain harvesting combines (-7.1) Light industry equipment (-11.0) Radios and radio-phonographs (-5.8) Refrigerators (-2.6) Washing machines (-15.0) Vacuum cleaners (-8.7)
Soft goods		Cotton (-2.8) Linen (-1.8) Silk (-1.6)	Wool (-5.6) Knitted outer and underwear (-6.2) Sewn articles (-3.4) Leather shoes (-7.1)
Processed foods		Granulated sugar (-0.7) Vegetable oil (1.8) Meat (0) Butter (-2.4) Whole milk products (-2.0)	Canned goods (-3.2) High fat cheese (-4.1)

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these deficiencies were beginning to have an impact. In some branches of industry (chemicals, light industry, and the meat and dairy branch of the food industry), production had been ahead of plan in 1971 and then fell behind plan in 1972. Last September, Premier Kosygin bluntly told a Gosplan audience that the 1971-75 plan was in jeopardy because of the failure to complete new plant and equipment as scheduled. He singled out the light and food industries in this regard. Later, Gosplan Chairman Baybakov pointed to "the delayed introduction of production capacities, especially in the ferrous metallurgy, chemical, oil refining and gas industries, and light industry" as a cause of the slowdown in industrial growth.

30. Much of the slump in growth of the machinery (and industrial) sector, however, was due to relatively low rates of growth in the output of military hardware and consumer durables. Military hardware production, after declining by 1.4% in 1971, increased by 4.6% in 1972. The growth in output of radios, television sets, motorcycles, and refrigerators slowed or stopped altogether.

31. The soft goods and processed foods branches have had to contend with raw material problems as well as construction difficulties. In 1971, wool and flax deliveries grew very slowly and then declined in 1972; the disappointing performance of other soft goods sectors is explained by developments within the industry rather than the decline in agricultural production. For example, in the 1971-75 plan, capacity for the production of 75.2 million knitted wear garments per year was to have been added, but the capacity actually introduced in 1971 was capable of turning out only 15.5 million articles. As stated above, shortfalls in the farm sector in 1971 and 1972 had a pronounced effect on the output of processed foods -- particularly the output of vegetable oil, sugar, and whole milk products. Still, large increases in the fish catch and in meat production kept the growth in total output of processed foods in 1972 close to the 2.9% increase achieved in 1971.

32. Although the branches producing industrial materials held their own in 1971-72, a number of developments caused concern for the future. First, the oil and gas industry did not succeed in reaching all of its goals. Failure to meet the original 1972 goal of producing 395 million tons of oil represents the first shortfall in production of oil since the early 1950s. The shortfall of 1 million - 2 million tons resulted from the unforeseen depletion of older producing fields in the Groznyy and Baku regions. West Siberian crude oil production, however, is about 2 million tons ahead of plan, and, for the first time in about three years, output is not being limited by available pipeline capacity. The 800-kilometer 48-inch-diameter pipeline from Aleksandrovsk near the Samatlor field to Andzhero-Sudzhensk on the Trans-Siberian Railroad was finished in April.

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33. The goal for natural gas has not been met during most of the past decade, but the production of only 221 billion cubic meters in 1972 indicates a shortfall of 8 billion cubic meters, the worst underfulfillment in the industry's history. Furthermore, the annual increment of 9 billion cubic meters was the smallest since 1959 and may account for last September's reorganization of the Ministry of the Gas Industry. Baybakov reported that pipeline construction tasks on long-distance oil and gas pipelines were not fulfilled, especially the installation of compressors on gas pipelines. Although there has been no report of the length of pipelines built in 1972, there are indications that several major projects are behind schedule.⁶

34. The production picture for major chemicals in 1972 was spotty. There were shortfalls in sulfuric acid and caustic soda, important basic chemicals, but goals for fertilizers and man-made fibers may have been reached. Even if the overall quantitative goal for fertilizers is achieved, however, the assortment goal probably will not be met. Production of plastics is somewhat ahead of plan, largely because the goal set for 1972 was relatively easy. Although the growth in overall output of the chemical and petrochemical industries in 1972 was not far below the planned increase of 10.5%, there are signs of continuing delays in commissioning of new capacity. For example, the construction plan for fertilizer projects during the first 10 months of 1972 was met for only 27 of 78 projects. Production of chemical equipment was 4% below plan in 1971 and 10% below the 1972 target. Moreover, low-quality equipment and poorly trained workers are preventing full utilization of new production capacities.

35. As with chemicals, the limited data available for 1972 show output of ferrous metals to be about even with original plan goals. Output of crude steel is slightly above the plan figure, output of steel pipe was slightly higher than planned output, and output of finished rolled steel and pig iron was slightly below plan. Nevertheless, Baybakov's concern over the lags in commissioning of new capacity in this branch appears to be well-founded. The 1971-75 plan called for annual commissionings of new capacity for crude steel production of 5.2 million tons, but, in 1971 and 1972, capacity for only 1.7 million and 2.2 million tons, respectively, were

6. In February 1973, Nikolay Patolichev, Minister of Foreign Trade, rejected a request by Austria for increased deliveries of natural gas, presumably because an inadequate delivery capability made it impossible for the USSR to provide Austria with more gas and still meet its export commitments to West Germany and Italy which begin late in 1973. This rejection was a shock to Austrian officials as the pipeline to Italy will cross Austria and it was expected that Austria would receive additional gas in lieu of fees for pipeline transit. It would appear that this lack of flexibility in the Soviet supply system stems from the fact that Ukrainian gas, the initial source of export gas, may be fully committed and that gas supply for export will not be increased until Central Asian pipelines are completed.

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actually introduced. Similar shortfalls occurred in completing new capacity for the production of finished rolled steel products and steel pipe.

Capital Investment

36. Judging by the frequent warnings given by top-ranking officials, the investment program has run into trouble. The central authorities seem to have lost some of their control over the allocation of investment resources, thereby placing certain key construction projects of the five-year plan in jeopardy. Completion of projects has also been delayed as the result of shortfalls in the production of certain machinery and equipment. By 1972, production of petroleum equipment was 16% behind schedule while output of chemical equipment was 10% below plan. Also investment in the consumer goods industries must have felt the impact of a 12% shortfall in the production of equipment for light industry and a 2% shortfall in the production of equipment for the processed food industry.

37. The economic reform begun in 1965 gave some leeway to enterprises and ministries to propose and carry out "noncentralized" investment projects financed from funds provided by profits and bank credits. At the same time, collective farms, increasingly affluent as a result of rising prices for their products, expanded their investment programs. Soviet leaders claim that the rapid growth of investment planned at these local levels has often been at the expense of projects planned centrally. Although the reasons for the disarray in capital investment are more complex than simply the question of who approves a particular project, the central planners have tried on several occasions to curb the rise in noncentralized investment that has accompanied the economic reform. From a rate of increase of 12.9% per year in 1966-70, as shown in the tabulation below, its growth was held to 8.2% in 1971 and 2.2% in 1972 (although the planners had hoped to achieve absolute reductions of 3.0% and 4.8% in 1971 and 1972, respectively).

	<i>Percent</i>					
	<i>Average Annual</i>		<i>1971</i>		<i>1972</i>	
	<i>1961-65</i>	<i>1966-70</i>	<i>Plan</i>	<i>Actual</i>	<i>Plan</i>	<i>Actual</i>
Total fixed investment	6.3	7.5	5.2	7.3	5.1	6.6
State						
centralized	7.9	5.7	8.7	6.8	9.5	6.9
Noncentralized	1.9	12.9	-3.0	8.2	-4.8	2.2

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38. The main justification for reemphasizing centralized investment has been to limit the uneconomic dispersion of resources among too many construction projects and the starting up of new projects before some of the projects scheduled for operation have been completed. The aim has not been entirely realized, however. "Commissionings of fixed capital" (the measure of growth of new projects going on stream), which had increased at the rate of 8.3% per year in 1966-70, grew at a rate of only 5% in 1971-72. Indeed, the 1972 plan demanded a sharp increase in the growth of commissionings to 12.7%, but by year's end the annual increase in commissionings was only 4%. Because of the failure to complete investment projects on time, the economy has had to do without a good deal of scheduled new production capacity. Meanwhile, as commissioning faltered, the inventory of unfinished construction projects lengthened with unexpected speed - by 10.3% in 1971 and by more than 6% in 1972. The 1971-75 plan directives set a target of limiting the total increase in unfinished construction to 15% over the five years of the plan.

Consumer Welfare

39. Per capita consumption rose by about 3% in 1972, compared with an average annual rate of increase of 4.7% in the preceding six years. Food shortages related to both the 1971 and the 1972 harvests were largely responsible. Still, Soviet consumers did not go hungry; total food consumption increased slightly, and daily food consumption per capita amounted to about 3,200 calories. Consumption of soft goods grew somewhat faster than in 1971, and per capita purchase of consumer durables also picked up somewhat, as shown in the following tabulation:

	<i>Percent</i>		
	Average 1966-70	1971	1972
Total	4.8	4.3	3.0
Food	3.6	4.6	1.6
Soft goods	5.2	3.8	4.3
Durable goods	8.4	4.1	4.9
Personal services	6.7	5.2	5.4
Health and education	5.2	4.1	2.5

40. A major feature of Brezhnev's speech at the 24th Party Congress in 1971 was the announcement of a "something-for-everyone" welfare package to be introduced in 1971-75. The welfare package included 14

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separate measures with a cost of 22 billion rubles. Now, despite Baybakov's assurances that "the measures outlined by the 24th Party Congress for improving the welfare of the Soviet people are being implemented in accordance with plan," some "expensive" features seem to have been shelved or only partly implemented. Most important, the plans to raise the minimum wage from 60 to 70 rubles a month and cuts in the income taxes, which were to be implemented in 1971, still have not been carried out.

41. During the second half of 1972 the population became quite apprehensive about the food situation. Evidence of greater than normal food shortages -- particularly of fruit and vegetables -- first appeared in Moscow in late August, usually a month of plentiful supply. Scattered reports from other areas indicated that their situations were worse than Moscow's and that even bread was occasionally in short supply. [REDACTED]

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In early September, *Pravda* admitted to some problems in supply, blaming poor organization and irresponsible officials. By early October the food supply situation appears to have stabilized in Moscow, but it may have worsened in some provincial areas.

42. Most of the food problem resulted from the summer drought, which upset normal growing and distribution patterns. In regions where potato and vegetable crops failed, the All-Union authorities had to reschedule supply links so as to provide for major urban centers. [REDACTED]

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[REDACTED] the entire region from the headwaters of the Volga to the Ukraine was designated as a special area in which shipments of potatoes, vegetables, grain, and fodder were controlled closely. Moscow and Leningrad in particular were left high and dry until alternative sources of supply could be arranged.

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43. The regime's policy in 1972 was to maintain food supplies at near normal levels insofar as possible. Extraordinary steps were taken to ensure adequate food supplies. In addition to the massive grain purchases from the West, more than a million tons of potatoes and some vegetables were bought from Poland and East Germany. Meanwhile, the leadership also took steps to conserve its grain supply. In early August it launched

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a nationwide campaign to save bread as articles appeared daily in the press deploring the waste of bread in restaurants and homes. Producers were told to bake smaller loaves and cut thinner slices, restaurants were ordered to serve fewer slices, and all stale, unused bread in bread stores and restaurants was to be returned to the bakery for further, unspecified "processing." Persons owning livestock were warned not to use bread for feed. So far, there have been only a few reports of bread shortages, and, where shortages appeared, they were attributed to the failure to build enough bakeries. Nor, in contrast to 1963-64, has there been observed a deterioration in the quality of bread in an effort to stretch the available supply of breadgrains.⁷

44. There were other, more positive aspects of the consumer situation in 1972. Surveys of shops and markets in Soviet cities revealed limited to adequate supplies of meat in most cases; pork was available in most instances and processed meat in almost all instances. Sales of many consumer durables increased markedly. As production of passenger cars soared, sales to the population increased correspondingly. Refrigerators and furniture were also manufactured in substantially greater numbers.

Plans for 1973

45. The magnitude of the 1972 shortfalls forced Soviet planners to abandon many of the detailed targets for 1973 which had been set out in the five-year plan directives. In particular, the planners made major adjustments in the goals for industry, agriculture, investment, and consumer welfare. The revised plan goals imply a growth of GNP of 7.1% for 1973. The plan for GNP depends mainly on an expected 12.6% increase in farm output, but some recovery is also planned in the growth of industrial production and freight transportation (see Table 5).

Table 5

USSR: Growth of GNP, by Sector of Origin

	<i>Percent</i>	
	<i>1972</i>	<i>1973 Plan</i>
GNP	1.5	7.1
Industry	4.5	6.7
Construction	6.0	0
Agriculture	-6.8	12.6
Freight transportation	4.0	5.6
"Productive" communications	8.0	7.9
Domestic trade	6.9	5.0
Services	3.6	3.8

7. In Rostov and Kharkov, [] an absence of high-quality white bread. Both cities, however, had adequate supplies of wheat flour and "brown" and "black" bread.

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46. In industry, production targets for the oil and gas, chemicals, and some machinery products have been scaled down because production capacity has not increased as rapidly as had been planned.⁸ The goals for production of soft goods and processed foods also reflect the delays in getting new capacity into production, but expected shortages of raw material to produce meat, vegetable oil, sugar, wool, and flax also dictated a retreat from the goals set out in the five-year plan directives.

47. Thus far, few of the specific goals for agricultural production have been published. Although farm goals represent only intent, the target for grain production of 197.5 million gross tons (about 160 million tons of usable grain) has taken on the trappings of a national campaign. Indeed, the pledges induced from individual regions already add up to more than 210 million gross tons. At the same time, the authorities probably believe that overall production of livestock products will not increase appreciably in 1973, because of feed shortages in the first half of the year and the need to restore inventories of hogs, sheep, and goats.

48. Although growth of consumer-oriented output in 1973 has been cut back sharply from earlier plans, there is as yet no evidence of a basic shift in priorities. These priorities, as reflected especially in the 1971-73 investment plan, gave great weight to agriculture and put other consumer interests on a more equal footing with heavy industry. Analysis of the 1973 plan reveals the same emphasis.

49. First the 1973 plan calls for a stringent limit on beginning new projects so that investment resources can be concentrated on those projects "which are decisive to fulfillment of the five-year plans." Growth of total investment in 1973 is to be held to 3.5%, while the volume of construction-installation work is planned at the 1972 level, compared with

8. The degree of adjustment can be seen in the following comparison of the goals for growth in output in 1973 given, alternatively, in the five year-plan directives and in Baybakov's December 1972 speech:

Branch of Industry	Percentage Growth in Output	
	Original Plan	Revised Plan
All industry	7.8	5.8
Oil	8.7	7.5
Gas	9.2	7.7
Chemicals	10.7	8.5
Machinery	11.4	10.4
Soft goods	6.7	4.0
Processed foods	5.7	2.0

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the growth of 8% set out for 1973 in the five-year plan directives. In this manner the leadership hopes to reverse the trend toward a dispersion of investment resources and thus raise the rate of growth of gross additions to the stock of plant and equipment from 5.8% in 1972 to 11.0% in 1973.

50. Investment in agriculture, which met the plan schedule in 1972, is to increase by 9% in 1973 – precisely as called for in the five-year plan. Meanwhile, some drastic changes are planned in the investment pattern within industry to offset accumulated failures during the first two years of the plan period. As the following scheduled increases in capital investment suggest, the consumer-oriented sectors of industry will receive a larger share of investment resources in 1973 than they did in 1972.

	<i>Percent</i>
Total investment	3.5
Machinery for light and food industry	55
Chemicals	40
Machinery for chemicals and petrochemicals	36
Heavy, transport, and power machinery	24
Ferrous metallurgy	22
Light industry	18
Oil and gas	18
All machinery	15
Food industry	10

Second, the industrial branches which failed to bring new capacity on stream as planned generally are to receive the largest increases in investment. Indeed, some of the projected increases are so large as to raise questions concerning the ability of the branches to absorb them. In any case, the 1973 goals for investment can best be characterized as a last-ditch attempt to save the 1971-75 plan.

51. The expected slowdown in production in consumer industries in 1973 forced a change in incomes policy also. Because the supply of soft goods and food will grow more slowly in 1973, the volume of retail trade is slated to increase by 5.0% in 1973, compared with 6.9% in 1972. The population can spend its money in other channels – for example, in the collective farm market and on some services not furnished by the state trade network – but the aggregate supply of goods and services is not likely to grow by more than 6%. To avoid further increases in the already existing inflationary pressures, the authorities plan to put the brakes on wage increases in 1973, as follows:

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	<i>Percent Increase</i>		
	<i>1971</i>	<i>1972</i>	<i>1973 Plan</i>
State employees	3.2	3.5	2.7
Collective farms	3.0	4.7	4.4

If successful, the leadership's incomes policy would hold the growth in total incomes to about 5% in 1973. Taxes on the population may increase at a slightly faster rate, so on paper the growth in consumer disposable income could be held to less than the growth in the supply of consumer goods and services.

Outlook

52. The repercussions of the poor 1972 harvest are being and will be felt by the consumer. According to the 1973 plan, per capita meat supplies will level off. Even with a slowdown in consumer incomes, however, the demand for meat will rise markedly, and meat shortages should become much worse. The existing, sporadic shortages of potatoes and other vegetables probably will also worsen before next fall's harvest. Similarly, supplies of vegetable oil and sugar, even when bolstered by imports, may fall short of the population's demand for these foods. With average weather and some expansion of sown area, the 1973 potato, vegetable, and sugar beet crops should improve the supply situation during the second half of 1973. A poor crop, however, would create a serious crisis. Consumers will receive adequate supplies of most goods of industrial origin in 1973. Supplies of soft goods and many consumer durables already match or exceed demand, although assortment, quality, and style remain far below desired levels.

53. As in 1972, agriculture will dominate discussions of national economic policy. To support the livestock program, the leadership recognizes that it has to boost the energy and protein content of the livestock rations. Although the USSR is short of all livestock feeds, the shortage of concentrate feeds (grain and mixed feed) is the most acute. The downturn in the grain crop in 1971-72 has given the final blow to the modest program for the livestock feed base that was included in the 1971-75 plan. Even if average weather prevails over the next three years, the supply of concentrates from domestic sources will fall short of requirements. If the USSR holds to the livestock and meat goals enumerated in the 1971-75 plan, it would have to import a minimum of 40 million tons of grain in fiscal years 1974-76 in addition to the 37 million tons it has bought since the end of 1970.

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54. Meanwhile, the leadership has carried out a major shift in its farm management. Dimitriy Polyanskiy, the former First Deputy Premier of the Soviet Union and the new Minister of Agriculture, must oversee the distribution of scarce animal feeds this winter while hoping that Western grain arrives in time to forestall premature slaughtering. Then he will have to preside over the largest spring planting campaign in Soviet history. Last fall, because of excessively dry conditions, the area sown to winter grains was 20% less than planned. In December and January, temperatures were low enough so that, in the absence of sufficient snow cover, the winter grains probably suffered an above-normal degree of winterkill. Therefore, the USSR is likely to have to seed more than 100 million hectares to spring grains to make up for the winter grains area that has been lost or was never planted.

55. In 1973 the USSR will have to reexamine its foreign trade position to accommodate its grain imports. Grain purchases have strained an already tight Soviet hard currency payments position. Of the grain ordered for delivery in FY 1973, roughly 5.5 million tons - worth about \$300 million - were delivered in 1972. This leaves almost 24 million tons (\$1.5 billion) still to be delivered in 1973. The USSR will have to buy additional grain and also is expected to spend more than \$100 million on sugar in 1973; imports of machinery and equipment will almost certainly rise above the 1972 level. The USSR faces a hard currency deficit of \$1.8 billion or more in 1973, considerably larger than in any previous year.

56. The USSR has tried to prevent the hard currency deficit from interfering with imports of Western machinery and equipment. To finance the grain imports, the USSR has used short-term credit, has cut back on purchases of consumer goods, and has sold gold. Taking into account the proceeds from the gold sales in 1972 [REDACTED]

[REDACTED] and the option to pick up \$500 million in three-year Commodity Credit Corporations credits from the United States, the USSR must still find methods of financing the remaining \$1 billion of grain purchases. By additional sales of gold and the use of short-term and medium-term credit available on the European money market, the Soviet Union is attempting to minimize the damage to its foreign trade plans. Nevertheless, the upward trend in equipment orders has ceased, and pressure to trim purchases of consumer goods will increase as the USSR's short-term hard currency debt mushrooms and its gold sales approach the level of its gold output. Although the USSR should be able to pay for the very large 1972 imports in support of the consumer program without major disruption of its foreign trade, the balance-of-payments problem will become difficult should massive food imports continue. At the higher world prices now prevailing for grain and soybeans, the USSR would in any case have to pay another \$3 billion for imported concentrates (about 40 million

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tons) which seem to be required for fulfillment of the 1971-75 plan. Should another harvest failure intervene, the planners might well flinch and cut back the meat program rather than accept the extraordinary hard currency costs entailed in its continuance.

57. Soviet economic growth will probably turn upward in 1973 if, as is likely, farm output bounces back. Whether GNP increases as planned will depend on how much agricultural production grows. To achieve the planned 7% growth, weather conditions will have to be favorable and the livestock herds must be sustained this winter. Turning industrial performance around in 1973 will be difficult; the recovery in industrial growth planned for 1973 is still predicated on high rates of growth in productivity. In addition, the proposed changes in the investment program could introduce so much confusion that the growth in industrial fixed capital may suffer. Nevertheless, unless the weather is unusually poor, GNP should grow by perhaps 5% to 6% per year over the next three years. Even so, the average annual rate of growth in the first half of the 1970s would be significantly less than the rate in 1966-70. Along the way, many of the agricultural goals and some important industrial goals of the 1971-75 plan will have to be abandoned.

58. In the longer term the USSR will be hard pressed to maintain a rate of growth as high as 5%. Most of the problems which contributed to the slowdown in 1971-72 will remain even if the authorities manage to get agriculture moving again after two years of decline.

- The abrupt acceleration planned for industrial production in 1974-75 was tied to the expected completion of major investment projects, so delays in commissioning new capacity inevitably will continue to result in failures to meet production targets. The planned adjustments in the investment program may help to concentrate more of the USSR's investment resources on industrial construction, but similar reforms in the past have had a way of losing their impetus in the bureaucratic muddle and the bargaining among regional and ministerial interests.

- The plans for material savings in 1971-75 were too ambitious. When the rate of growth of machinery, chemicals, and consumer goods sagged during 1971-72, failure to realize the material savings did not make much difference. Nevertheless, the tautness of the plan is still an obstacle to a substantial acceleration of industrial growth.

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- The technological progress on which future growth depends in large part continues to disappoint the USSR's leaders. Thus far, reforms of the Soviet research and development establishment that were introduced in the 1960s have not had a noticeable effect. Ministries have been slow to adopt new processes or products, so investment in new plant and equipment often incorporates obsolete or second-best technology.⁹

- The agricultural sector, handicapped by natural conditions and clumsy management, has less growth potential than any of the other major sectors and will continue to be a brake on economic growth and the progress in living standards.

59. In view of these persistent problems, the Soviet leadership is likely to find this year or next that the economic first aid administered in December will not rescue the five-year plan. At that time, the debate over economic policy could be far more protracted and divisive than last fall's consideration of economic developments by Party and government leaders.

9. Ferrous metallurgy is a case in point. Although the overall production of crude steel and finished rolled steel is on the five-year plan schedule, Baybakov declared that the ferrous metals industry was not producing the necessary quality and variety of steel products. In fact, the lag in fulfilling the technological plans in ferrous metallurgy prompted an August 1972 Central Committee resolution which castigated the Ministry of Ferrous Metallurgy and several machinery and construction ministries for "feebly" carrying out their assigned tasks in modernizing the steel industry.

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